



Keeping Washington's Promise

"To keep the American Dream alive ... we must raise our standards of academic achievement, of government productivity and customer services, of the careful preservation of the natural environment we cherish, and of our determination to protect the well-being of Washington's working families."

– Governor Gary Locke's Inaugural Address
January 15, 1997

AS THE 21ST CENTURY BEGINS, the promise of a future where the American Dream lives on remains within reach in Washington State. Higher standards for student achievement in our schools are delivering better student achievement. A strong economy is creating jobs and raising family income. Welfare reform continues to put more people to work, while reducing the number of families on public assistance.

Governor Gary Locke's supplemental budget proposal for 2000 builds on Washington's success, but also recognizes the state still has a long way to go in meeting its goals in education. Complex problems that hurt children and parents, like domestic abuse, must be overcome. And voter approval of Initiative 695 presents a challenge in the way we deliver local public safety and health services, and address statewide transportation problems inconceivable 100 years ago.

Governor Gary Locke's supplemental budget proposal for 2000 expands his commitment to improving education in Washington State. The centerpiece is a multiyear effort in the state's elementary schools to reduce student-teacher ratios, which now rank 48th in the nation. This budget plan begins an effort to reduce class size, but more importantly, it proposes a new solution that dedicates future state revenue surpluses to improving schools and providing tax relief.

Governor Locke's Budget Principles

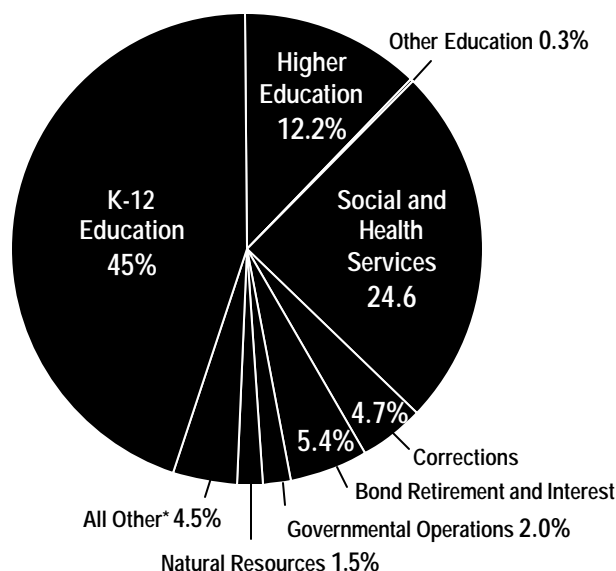
- **Education is Our Highest Priority:** Improving student achievement and access to higher education are the keys to our future.
- **Live Within Spending Limits:** The budget is within Initiative 601 spending provisions that were approved by voters and no new taxes are proposed.
- **Protect Working Families and the Environment:** Public safety and public health programs affected by Initiative 695 funding cuts receive safety-net funding.
- **Use Surplus State Revenue to Improve Education and Cut Taxes:** Revenue in excess of state spending limits flows back to local schools and to taxpayers.
- **Maintain a Responsible Reserve:** To protect key public services in an economic downturn, a reserve fund of more than \$500 million is maintained.

Proposed Budget Expenditures

(Including Governor's 2000 Supplemental Budget)

General Fund-State: Operating and Capital

Distribution of 1999-01 General Fund-State Expenditures

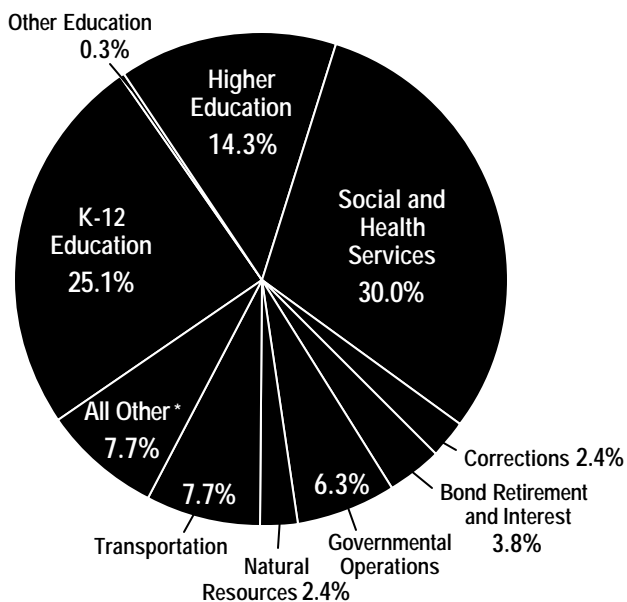


Category	Dollars in Millions
K-12 Education	\$9,405.2
Higher Education	2,550.3
Other Education	54.5
Social and Health Services	5,146.6
Corrections	935.2
Bond Retirement and Interest	1,118.2
Governmental Operations	411.8
Natural Resources	307.5
All Other*	955.6
TOTAL	\$20,884.8

*Other includes Legislative, Judicial, Other Human Services, Transportation, Contributions to Retirement Systems, and other appropriations.

All Funds: Operating Plus Transportation Capital

Distribution of 1999-01 All Funds Expenditures



Category	Dollars in Millions
K-12 Education	10,276.6
Higher Education	5,873.7
Other Education	101.1
Social and Health Services	12,284.1
Corrections	982.1
Bond Retirement and Interest	1,550.9
Governmental Operations	2,594.7
Natural Resources	988.6
Transportation	3,166.7
All Other*	3,157.5
TOTAL	40,976.1

*Other includes Legislative, Judicial, Other Human Services, Contributions to Retirement Systems, and other appropriations.

1999-01 Balance Sheet
With Governor Locke's Proposed 2000 Supplemental Budget
 General Fund-State
 (Dollars in Millions)

Resources

Beginning Balance	529.2
November Forecast	20,727.5
Governor's Tax Cuts and Credits, and Other Revenue Items	
Learning Improvement Property Tax Credit	(70.0)
Local Option Sales Tax Credits for Transits	(100.0)
Senior Citizen Property Tax Credit	(13.8)
Permanent 6.2 Percent Reduction in Property Tax	(45.9)
Other Bills with Revenue Impact	(4.3)
Current Revenue Totals	20,493.5
Total Resources (Revenue/Fund Balance)	21,022.7

Expenditures

Current Appropriations	20,572.8
Governor's Proposed Supplemental Budget	
Local Government Assistance Related to I-695 Local Revenue Loss	123.0
Transit Assistance Related to I-695 Local Revenue Loss	100.0
Other Revisions	89.0
Total Proposed Budget	20,884.8

Initiative 601 Expenditure Limit

November 1999 Limit as Adjusted for Governor's Proposed Budget	20,909.8
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Balances and Reserves

Unreserved Balance	137.9
Reserve for One-time Local Property Tax Credit for School Capital	(95.0)
Adjusted Unreserved Balance	42.9
Initiative 601 Emergency Reserve Account (plus interest earnings)	532.0
Total Reserves	574.9

Other Revenue Legislation

Close Tobacco Products Tax Loophole	0.4
Air Quality Field Burning Prevention Tax Exemption	(0.1)
Eliminate Property Tax Renewal Fee for Nonprofit Organizations	(0.1)
Estate Tax Penalties	(0.1)
Deposit unused OASI Fund Balances to General Fund	0.2
Allow Fire Protection Bureau Accounts to Retain Account Balance Interest Earnings	(0.1)
Continue Business and Occupation Tax Credit for Commute Trip Reduction	(3.5)
Business and Occupation Tax Credit for Workforce Training	(1.0)
	(4.3)

Adjustments to Initiative 601 Expenditure Limit

Baseline Expenditure Limit for 1999-01 Biennium as of November 1999	20,651.0
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Budget-Related Changes:

Federal Medical Assistance Percentage Adjustment (FMAP)	35.8
Increase in Assistance for Local Transits (one-time)	100.0
Increase in Assistance for Local Governments (one-time)	51.0
Increase in Assistance for Local Governments (ongoing)	72.0
REVISED EXPENDITURE LIMIT	20,909.8

Highlights of Major Appropriation Proposals		
General Fund-State		
(Dollars in Millions)		
Savings		(156.8)
Pension Changes	(63.9)	
Welfare Savings	(44.4)	
Other	(48.5)	
Forecast Change and High Priority Items		46.7
Total Education Expenditures		100.7
K-12	84.8	
1,000 New Teachers	51.1	
Teacher Quality and Benefits	9.2	
School Safety	5.2	
Levy Equalization	16.7	
K-12 Inflation	1.3	
Information Technology Grants	1.2	
Higher Education	15.9	
Promise Scholarships	4.5	
Skills Gap	1.2	
Distance Learning	1.5	
Information Technology Grants	2.4	
Emergencies/Technical Changes	6.3	
Community/Personal Safety		26.6
Salmon/Water		8.1
Initiative 695 Replacement Funding – State Programs		63.7
Crime Lab	1.4	
Air Quality	12.3	
Contribution toward Transit Liability	50.0	
Subtotal		89.0
Initiative 695 Replacement Funding - Local Programs		223.0
Local Government Services	123.0	
Local Transit	100.0	
Governor's Total Proposed 2000 Supplemental Budget		312.0
Reserve for 2001 Supplemental Budget		25.0

Sharing Prosperity with Washington Schools and Families

Under the Governor's proposal, a portion of the state revenue that results from a growing economy will go to schools. Local school districts will have more funding for new teachers and other programs necessary to increase the amount of individual attention that young students will need as they strive to meet the state's tough new learning standards. At the same time, a substantial portion of surplus revenue will go to tax cuts. Assuming that the state economy remains strong, the Governor's plan provides over the next five years, at least:

- **\$1.4 billion** in new resources for public schools and as much as \$700 million more, if the economy improves.
- **\$550 million** in tax reductions for families and as much as \$700 million more, if the economy improves.

Specific Elements of the 2000 Supplemental Budget

The Governor's budget proposal to the 2000 Legislature cuts taxes, funds more public school teachers now, and splits future state revenue created by Washington's strong economy between education and future tax reductions. This budget plan also preserves basic public safety, health, and transit services impacted by approval of Initiative 695. Specifically, this budget:

- **Cuts Taxes:** A permanent homestead tax credit for senior citizens living in their own homes means that qualified senior citizens will realize annual savings of \$200 to \$500 on a \$150,000 home, depending on their income. An ongoing general property tax cut of 6.2 percent will provide \$27 in tax relief on a \$150,000 home. And a state constitutional amendment is proposed to smooth out increases in property values so assessments can become more predictable for taxpayers.
- **Helps Every Child Succeed in School:** One thousand new teachers are added in the 2000-01 school year with \$51 million in the supplemental budget. And beginning teachers are tested to ensure they have the skills to teach effectively.
- **Implements a Learning Improvement Tax Credit:** Over five years, school districts keep more than \$1 billion in state property taxes generated in their communities so that they can invest in even more class size reductions and other programs that will give more individual attention to children.
- **Makes Quality College Education More Affordable:** Increases funding for Washington's Promise Scholarships helping top high school students get a college education.

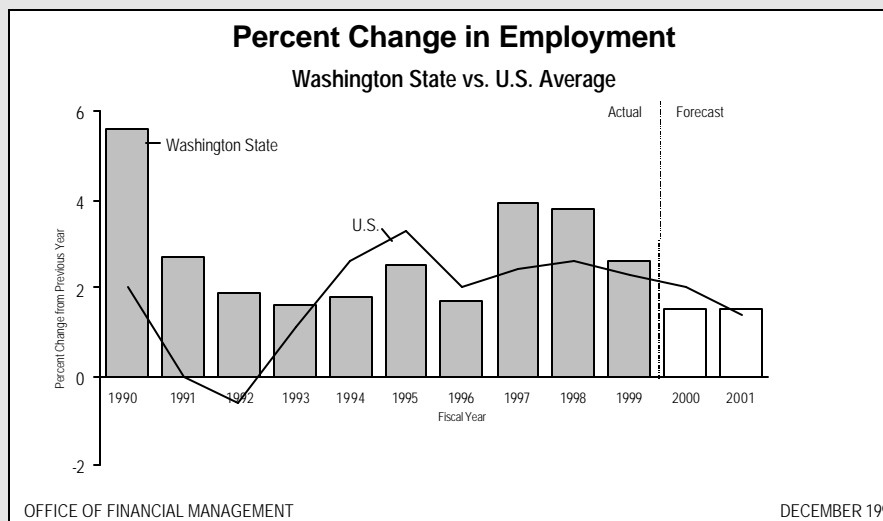
Recent Trends in Washington's Economy

IN THE LAST THREE YEARS, Washington's economy has grown at a remarkable rate, improving the standing of families, businesses, and state and local governments alike. However, the state economic forecast for the next two fiscal years projects the state economy will cool as a result of slower state population growth, the expectation of a stock market correction, higher oil prices, and the continued decline in aerospace employment.

The November 1999 forecast by the state Economic and Revenue Forecast Council (ERFC) indicates Washington's employment growth is expected to fall to levels closer to national employment growth projections of 2.0 percent growth in Fiscal Year 2000 and 1.5 percent in Fiscal Year 2001, rather than remaining significantly above the national growth rates as in the last three years. Personal income growth in Washington State also is expected to slow until it reaches the national average for those years. Over each of the last three fiscal years, the growth rate of personal income in Washington exceeded the growth rate of U.S. personal income by two percentage points or more. By Fiscal Year 2001, Washington's personal income growth is predicted to fall to 4.5 percent, almost the same as the U.S. forecast for personal income.

- Aerospace Employment:** During the next two fiscal years, manufacturing employment in Washington is projected to decline, due in large part to reductions in aerospace employment. Aerospace employment peaked at almost 114,000 in June of 1998. From Fiscal Year 1998 to Fiscal Year 1999, aerospace employment declined by 3,300. The ERFC suggests that aerospace employment will continue its decline, falling by 17,200 workers in Fiscal Year 2000, and by another 6,200 in Fiscal Year 2001. Other manufacturing sectors are expected to decline by about 1,200 in Fiscal Year 2000, but rebound with growth of about 1,900 jobs in Fiscal Year 2001.
- Services and Trade:** In the non-manufacturing sectors, the strongest growth is predicted to occur in services and trade. Services employment is forecast to expand by 3.8 percent in Fiscal Year 2000 and by 3.2 percent in Fiscal Year 2001. Retail trade employment should increase by 2.1 percent and 1.7 percent in those fiscal years, respectively.
- Other Sectors:** Construction employment is expected to continue strong growth of 3.0 percent in Fiscal Year 2000, but drop to only 0.4 percent growth in Fiscal Year 2001. Employment in transportation, communications, and public utilities is predicted to grow by 3.1 percent in Fiscal Year 2000, but expand by only 0.4 percent in the next year. Finance, insurance and real estate, and state and local government employment are expected to grow at 2 percent a year.

For these and other reasons, the Governor has urged a cautious approach with regard to both state spending and tax policies for the 1999-01 Biennium.



Growth in the number of new jobs in Washington is expected to fall below the national average during the first year of the 1999-01 Biennium.

Employment growth is a major indicator of the state's overall economy.

- **Shifts Savings from Throughout Government to Education and Vital Programs:** Cut by Initiative 695: Eliminates funding for more than 1,500 positions in the state workforce. The successful WorkFirst Program continues to yield savings, and general cost reductions throughout state government produce more savings.
- **Assists Local Governments:** State reserve funds are used to help local governments and transit districts adjust to impacts of voter-approved Initiative 695.
- **Focuses on Economic Vitality Statewide:** The Department of Community, Trade, and Economic Development is restructured, rural economies get help, and job training is improved.
- **Improves Community and Personal Safety:** Programs to battle domestic violence and abuse of the elderly, sick, and disabled are strengthened. A new emphasis is placed on fuel and pipeline safety. More resources are devoted to securely house and treat violent sex offenders.
- **Values Natural Resources:** Work continues to save wild salmon runs from extinction and keep the air clean.

Responding to the Passage of Initiative 695

This budget faces unique challenges because of passage of Initiative 695, which eliminates the Motor Vehicle Excise Tax (MVET) that supported key programs in agencies, counties, cities, and transit districts. The state's ability to respond to this new challenge is shaped by the limitations imposed by Initiative 601. Under provisions of the initiative:

- If the General Fund assumes responsibility for programs previously funded by dedicated sources, such as the MVET, that funding must be accomplished without an increase in the state spending limit.
- Local programs can be funded by adjusting the limit upward so that surplus state funds can be used.

This budget uses mechanisms provided under Initiative 601 to partly offset the program losses resulting from Initiative 695. The budget does not propose any shift or dedication of General Fund revenue to other state funds, such as the Motor Vehicle Fund. This type of shift would require a permanent reduction in the Initiative 601 spending limit.

A total of \$64 million in savings from other state programs is redirected to make up funding losses that affect the state crime lab, air quality programs, and a transportation fund deficit. In addition, \$323 million is provided through direct appropriations and a local tax credit approach to assist local criminal justice, public health, transit, and other programs hardest hit by Initiative 695 funding losses.

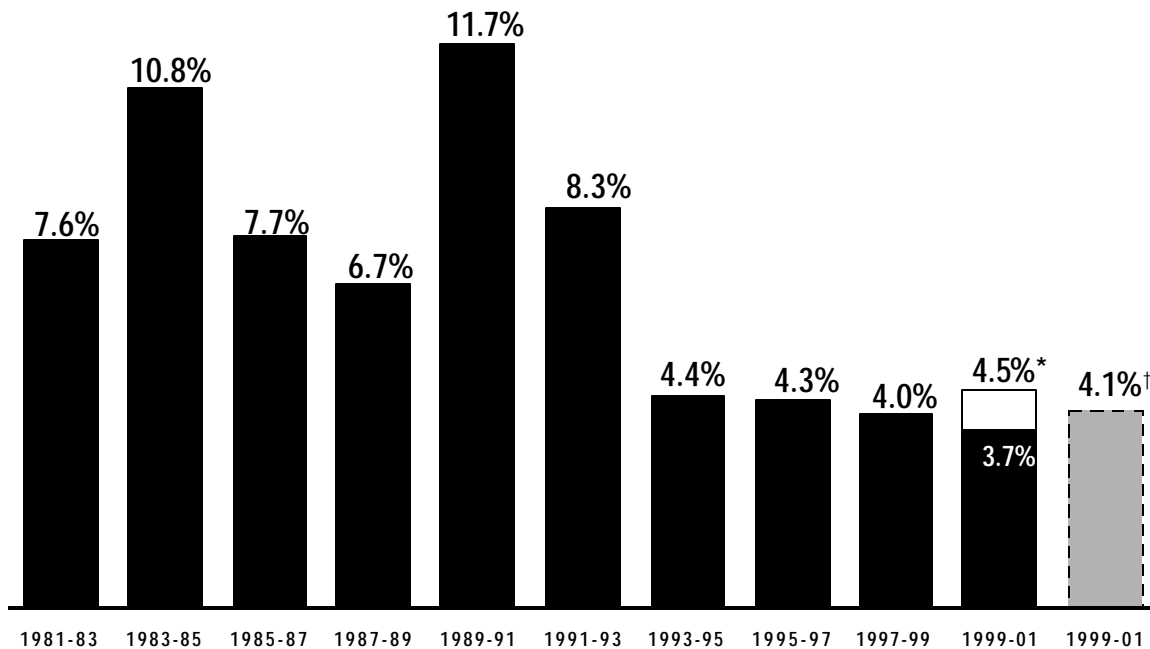
Growth of General Fund Spending Still Low

The Governor's 2000 Supplemental Budget proposal increases spending by \$312 million, including \$89 million in regular supplemental expenditures and \$223 million for partial replacement of revenue lost by local governments and transit systems as a result of Initiative 695.

Even with these levels of assistance, the expenditure level for the 1999-01 Biennium will rise by only 1.5 percent, keeping growth of general fund spending among the lowest rates in the last 30 years.

Percent Change in General Fund-State Expenditures

Adjusted Average Annual Percent Growth



* With Governor's 2000 Supplemental Budget, including temporary Initiative 601 expenditure limit lift for one-time local government and transit assistance.

† With Governor's 2000 Supplemental Budget including only ongoing local government assistance, which more accurately represents ongoing spending.